STATEMENT OF
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ON BEHALF OF THE
COALITION FOR SUGAR REFORM

House Committee on Agriculture
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Mr. Chairman, my name is Greg McCormack. I am president and chairman of the board of Bobs Candies, Inc., in Albany, Georgia, and the third generation of my family involved in this business.

Today I am testifying on behalf of the Coalition for Sugar Reform. This coalition includes trade associations that represent food companies, grocery manufacturers and others who use sugar, as well as the companies that refine cane sugar. The coalition's members also include taxpayer advocacy groups, consumer organizations and environmental groups.

I would like to explain why our coalition is opposed to the sugar program – not to sugar producers, but to the sugar program. I make this distinction because the sugar program is not only harming the interests of our coalition, but it is not serving growers well either. I do not claim that growers would solve these problems they same way we would. Indeed, I will explain why we must strongly oppose some of their suggestions. Nevertheless, sometimes common problems create common opportunities for cooperation.

The sugar program is not like most other farm programs. It does not have to be so different, but it is. Instead of direct, transparent assistance to farmers, the sugar program distorts prices through import quotas and a price guarantee that is twice world levels.

When Congress wrote the last farm bill, advocates of the sugar program argued that the program was run at no net cost to taxpayers. They argued that it worked, and that it benefited producers.

The committee needs to understand that much has changed since 1996. Domestic production rose almost 25% in the subsequent three years and will still be 15% higher than 1996 this year despite lower prices. By contrast, imports have fallen 40%. Imports are not the problem. The problem is that our high sugar price supports have led to a surplus of sugar.

Unlike 1996, the sugar market is not balanced, it is unbalanced. In 1996, the government owned no sugar. By contrast, the government acquired over 1 million tons of sugar last year. USDA entered the market during the spring to purchase sugar in the hope of shoring up prices – a hope that turned out to be vain. Then USDA acquired much more surplus sugar through forfeitures under the price support program. The federal government is spending over $1 million a month to store this sugar.

At the same time it was acquiring sugar, USDA paid growers – using some of the same sugar – to plow under their crops. More recently, USDA has said it will use up to 100,000 tons of taxpayer-owned sugar to subsidize ethanol plants. This sugar will be sold at a fraction of the price USDA could receive if it simply sold the same sugar into the open market, as it is allowed to do by law.

None of this had happened in 1996. Not only had there been no recent large-scale forfeitures of sugar, there was no great likelihood of forfeitures in the future. Again, the situation is different today. Not only have there been forfeitures, there may well be more – fewer this year than last, perhaps, but still at a substantial cost to taxpayers. Reported prices for refined beet sugar are less than forfeiture-equivalent levels today, so later in the year it is quite possible that taxpayers will again be given the gift of sugar they do not want to own.

That will come at a cost, and this is another way the world has changed. In 1996, the sugar program did not result in a net outlay of taxpayer dollars, at least directly (although it did and does make federal nutrition programs more costly and less effective). But in 2000, taxpayers spent $465 million to buy sugar. Both CBO and USDA project levels of surplus that will lead to additional taxpayer costs down the road. USDA's long-term baseline projects sugar stocks rising to as much as three times normal levels, with taxpayers owning the biggest part of the surplus.

Finally, the sugar program's effect on employment today is more evident than was the case in 1996. The problems of the cane refining industry are stark. Of the refineries that were operating when the current program began in the early 1980s, about half have closed, taking over 3,000 good manufacturing jobs with them. The refining industry has been devastated in the past year by the collapse of refining margins, so that the largest refiner is now in bankruptcy.

Recently, Chicago's candy industry has been threatened by plant closings that are the direct result, among other factors, of the spread between U.S. and world sugar prices. American candy manufacturers must pay double what their competitors pay for sugar. Increasingly, they find it difficult to remain competitive in this kind of environment. They are being subjected to what is, in effect, a tax from which their competitors are exempt.

Mayor Richard Daley of Chicago has spoken eloquently about this problem. He has been joined by both the business and labor communities in Chicago. Prominent Chicago-area members of Congress such as Danny Davis and Bobby Rush have likewise denounced the sugar program.

As long as the sugar program distorts trade, problems like these will grow. It may be Chicago today, but it will be other cities and communities tomorrow. Indeed, my own company has experienced these problems.

These are only some of the ways in which 2001 is different from 1996. But it is extremely important that the committee recognize these differences. Even if you thought the current sugar program was workable in 1996 – and of course, we did not – you should come to a different conclusion today.

The processors and growers who support the current program have proposed changes. We respect them and we respect their views. But we disagree with them profoundly.

Their proposal is to increase the sugar price support both directly and indirectly. The direct increase would be achieved through a "rebalancing" of the sugar loan rate. The indirect increase would be achieved by getting rid of the forfeiture penalty. This penalty, now assessed on processors who forfeit sugar, operates to reduce government costs and to reduce – by one cent per pound – the price at which a rational processor would forfeit sugar. Abolishing it would have the opposite effect, and would be tantamount to raising the support price by one cent.

Let's remember the problem: too much domestic sugar production, up more than 15% under the current price support. How can we imagine that the solution to that problem is a higher price support that will induce still more production? Even after the past year of lower-than-normal U.S. prices, harvested sugar cane acres for 2001 are forecast to rise 5%, or 24,000 acres. What do we think will happen if price supports are even higher?

The growers and processors propose marketing allotments as a solution. But such a policy is no solution at all. Congress wisely repealed allotments in 1996, along with production controls for almost all other commodities. If allotments achieved their stated purpose, they would make the problems of Chicago candy workers even worse by widening the spread between U.S. and world prices. As we move toward an open sweetener market with Mexico under the North American Free Trade Agreement – an open market that will occur within the likely lifetime of the farm bill you are writing now – marketing allotments will simply lock U.S. producers into a declining share of their own market. That is not a wise decision for Congress to make.

I have dwelled on those factors that have changed since 1996. They do not exhaust the list of problems with today's sugar program. Consider only a few others:

The sugar program hurts the environment. In Florida alone, almost half a million acres just south of Lake Okeechobee are used for sugarcane production. The 2 million tons of raw sugar produced there – one-quarter of all U.S. sugar production – greatly contributed to the degradation of the Everglades. Congress has begun a multi-billion-dollar, 20-year Everglades cleanup effort. But as long as the sugar program encourages more sugar cane production in Florida, our environmental efforts will be less effective than they could be.

The sugar program raises consumer and user costs. We can argue endlessly about consumer prices, but the fact is that objective studies of the sugar program show that it costs consumers and users from hundreds of millions to almost $2 billion each year. The General Accounting Office and the International Trade Commission are not on the payroll of sugar users.

The sugar program frustrates our international trade policies. The clearest example is the ongoing harm to corn refiners and producers from the sweetener disputes with Mexico. Our negotiators' desire to placate the domestic sugar industry has frustrated their efforts to get better access for HFCS into the Mexican market. The sugar program has been cited by our hemispheric trade partners, particularly Brazil, as an obstacle to the Free Trade Area of the Americas. And the sugar program complicates our negotiators' job of expanding market access and ending non-tariff trade barriers in the WTO for U.S. export commodities like beef, pork, corn, wheat and soybeans.

This farm bill should reform the sugar program. It should not tinker around the edges but make genuine change.

Reform can take a variety of forms. We believe certain principles should govern our sugar policies. We also believe these principles should be used to evaluate any legislation considered by the committee. All the principles have one overriding theme: We should give greater sway to market forces than current policy allows.

First, policies should allow the market to operate in such a manner that supplies are adequate and balanced. This means that shorting the market through production controls should be off the table, and market signals should be transmitted to all producing regions so that an imbalance of beet sugar relative to cane sugar can be avoided. In turn, market balance will allow a return to viability for the cane refining industry.

Second, our market needs to become more open to world supplies. In recent years, as I have already pointed out, we have gone in the other direction, cutting imports by 40%. Reversing this trend is vital to accommodating our present and future trade obligations, and to encouraging expanded market access worldwide for our competitive export commodities, whether pork, soybeans, corn or beef.

Third, our policies should not provide incentives for overproduction. The current support system has clearly encouraged more domestic production than the market needed. We must change that. The operation and role of the support price, the loan program, the tariff rate quota and the forfeiture penalty all need to be analyzed in this context.

Fourth, market prices must be better able to fluctuate with supply and demand. Too often in recent years, price movements have been the result of abrupt and arbitrary government policy changes, excess supplies induced by government programs, the abrupt removal of those supplies from market channels, and similar factors. Whatever policies Congress may choose to address the difficulties of some producers, those policies should permit the price mechanism to operate with greater market-responsiveness than is the case today.

We strongly support H.R. 2081, which 53 bipartisan Members of Congress have introduced, as a genuine reform of sugar policy. That bill does not exhaust the possibilities for crafting genuine reform, which could take a variety of shapes, but the legislation has garnered the support of Members from a range of regions and ideologies and has the backing of our coalition.

Whatever decisions this committee ultimately makes, I ask you to remember three things. First, things have changed since 1996, and not for the better. Second, the current sugar program is no longer helping the people it is designed to help and it is hurting many other people from all walks of life. Third, real reform must bring more market orientation to this outdated, counterproductive, unsustainable program.

Thank you, Mr. Chairman.